ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Unaudited Financial Statements

December 31, 2004 and 2003

ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Unaudited Balance Sheets

December 31, 2004 and 2003

Assets		2004	2003
Current assets:			
Cash and cash equivalents (note 3)	$	8,565,210	6,202,811
Investments (note 4)		18,759,628	20,389,037
Accrued interest receivable		123,449	441,207
Total current assets		27,448,287	27,033,055
Restricted assets:			
Cash and cash equivalents (note 3)		31,940,111	19,572,849
Investments (note 4)		296,483,821	248,695,949
Loans receivable (note 5)		596,369,140	576,729,891
Less allowance for:			
Doubtful loans (note 6)		(101,804,979)	(97,900,408)
Forgiveness (note 7)		(2,361,557)	(2,257,682)
Net loans receivable		492,202,604	476,571,801
Accrued interest receivable, net of forgiveness allowance of $763,402 and $671,610 in 2004 and 2003, respectively		16,460,778	13,381,545
Due from U.S. Department of Education		716,342	264,851
Bond issuance cost, net of accummulated amortization of $3,299,451 and $3,904,717 in 2004 and 2003, respectively		5,663,164	5,158,763
Total restricted assets		843,466,820	763,645,758
Total assets	$	870,915,107	790,678,813

(Continued)

See accompanying notes to the unaudited financial statements

ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Unaudited Balance Sheets

December 31, 2004 and 2003

Liabilities and Net Assets		2004	2003
Liabilities:			
Current liabilities payable from unrestricted assets:			
Accounts payable	$	470,554	407,847
Due to State of Alaska		1,401	51,071
Warrants outstanding		30,640	194,634
Deferred credit (note 2)		10,586,953	13,508,461
Return of capital payment declared (note 12)		3,100,000	5,600,000
Total current unrestricted liabilities		14,189,548	19,762,013
Current liabilities payable from restricted assets:			
Due to State of Alaska		24,896	—
Warrants outstanding (note 5)		6,950,772	5,117,449
Return of capital payment declared (note 12)		49,726,303	—
Bond interest payable		8,723,073	8,719,200
Current portion of arbitrage rebate payable (note 9)		110,817	198,979
Current portion of bonds payable (note 8)		31,195,000	42,040,000
Total current liabilities		96,730,861	56,075,628
Noncurrent liabilities payable from restricted assets:			
Arbitrage rebate payable (note 9)		511,995	354,420
Bonds payable, net of bond premiums/discounts (note 8)		510,131,909	390,442,419
Total noncurrent liabilities		510,643,904	390,796,839
Total liabilities		621,564,313	466,634,480
Commitments and contingencies (note 12)		—	—
Net assets:			
Restricted net assets		236,092,055	316,773,291
Unrestricted net assets (note 2)		13,258,739	7,271,042
Total net assets		249,350,794	324,044,333
Total liabilities and net assets	$	870,915,107	790,678,813

See accompanying notes to the unaudited financial statements

ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Unaudited Statements of Revenue, Expenses

and Changes in Net Assets

Six Months Ended December 31, 2004 and 2003

		2004	2003
Operating revenue - interest income - student loans	$	16,754,568	20,077,556
Operating expenses:			
Provision for:			
Loan losses (note 6)		3,305,358	1,826,135
Forgiveness (note 7)		243,803	120,686
Operations		5,326,827	4,579,135
Total operating expenses		8,875,988	6,525,956
Operating income		7,878,580	13,551,600
Nonoperating revenue (expense), excluding special item:			
Interest income from investments		3,947,503	2,679,774
Interest expense		(10,595,926)	(9,300,104)
Amortization of bond issuance costs		(255,055)	(319,716)
Net nonoperating expense		(6,903,478)	(6,940,046)
Income before special item ("statutory net income")		975,102	6,611,554
Special item, return of capital (note 12)		(3,100,000)	(5,600,000)
Change in net assets		(2,124,898)	1,011,554
Total net assets-beginning		251,475,692	323,032,779
Total net assets-ending	$	249,350,794	324,044,333

See accompanying notes to the unaudited financial statements

ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Unaudited Statements of Cash Flows

Six Months Ended December 31, 2004 and 2003

		2004	2003
Cash flows from operating activities:			
Principal repayments received on loans	$	26,157,412	26,070,446
Interest received on loans		13,325,540	14,439,694
Other cash receipts		1,156,511	981,025
Loans originated		(37,372,609)	(29,428,810)
Cash paid to Alaska Commission on Postsecondary Education for operating expenses		(5,335,767)	(4,637,045)
Net cash provided by (used for) operating activities		(2,068,913)	7,425,310
Cash flows from noncapital financing activities:			
Bond issue costs		(50,342)	(68,362)
Interest paid on bonds		(10,942,604)	(10,515,901)
Principal payments on bonds		(81,495,000)	(47,005,000)
Net cash provided by (used for) noncapital financing activities		(92,487,946)	(57,589,263)
Cash flows from investing activities:			
Interest received on investments		3,839,709	2,181,023
Investments matured		1,644,782,907	438,381,517
Investments purchased		(1,506,771,323)	(379,019,088)
Net cash provided by investing activities		141,851,293	61,543,452
Cash flows from capital activities:			
Bond issue costs		(1,430)	—
Interest paid on bonds		(754,356)	—
Principal payments on bonds		(3,135,000)	—
Return of capital payments		(30,873,697)	(5,000,000)
Net cash used for return of capital		(34,764,483)	(5,000,000)
Net increase in cash and cash equivalents		12,529,951	6,379,499
Cash and cash equivalents at beginning of period		27,975,370	19,396,161
Cash and cash equivalents at end of period	$	40,505,321	25,775,660

(Continued)

See accompanying notes to the unaudited financial statements

ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Unaudited Statements of Cash Flows

Six Months Ended December 31, 2004 and 2003

		2004	2003
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	7,878,580	13,551,600
Adjustments to reconcile operating income to net cash provided by operating activities:			
Increase in net loans receivable		(16,683,407)	(8,946,678)
Decrease (increase) in net accrued interest receivable on loans		856,610	(1,050,250)
Increase in due to State of Alaska		(462,344)	(329,693)
Increase in other assets		(326,076)	(136,569)
Increase in accounts payable		280,191	198,352
Increase in warrants outstanding		6,394,146	4,652,956
Decrease in deferred credit		(6,613)	(514,408)
		(9,947,493)	(6,126,290)
Net cash provided by (used for) operating activities	$	(2,068,913)	7,425,310

		2004	2003
Summary of noncash transactions that affect recognized assets and liabilities:			
Provision for loan loss and forgiveness	$	(3,549,161)	(1,946,821)
Provision for lost interest and forgiveness		(1,285,042)	(367,285)
Write-off of uncollectible loans		1,275,512	559,570
Forgiveness granted - principal		(278,302)	(181,978)
Forgiveness granted - interest		(50,184)	(98)
Bond discount amortization		81,711	(35,301)
Bond issuance cost amortization		(255,055)	(440,159)
Deferred credit used for loan loss		442,122	404,446
Deferred credit amortization		472,094	902,373
Interest capitalization		3,870,520	3,938,367
Unrealized loss on investments		(1,418,015)	(282,198)

See accompanying notes to the unaudited financial statements

(1) Authorizing Legislation and Organization

The Alaska Student Loan Corporation (Corporation), a component unit of the State of Alaska, was created in 1987 by an act of the State of Alaska Legislature (Legislature). The purpose of the Corporation is to provide low-interest education loans to Alaskans. The Corporation is authorized, with certain limitations, to issue its own bonds and other obligations in such principal amounts as, in the opinion of the Corporation, will be necessary to provide sufficient funds for carrying out its purpose. All obligations so issued shall not be deemed to constitute a debt of the State of Alaska (State).

The State Governor appoints the Corporation's Board of Directors and the staff of the Alaska Commission on Postsecondary Education (Commission) administers the Corporation. The Commission's budget provides for reimbursement from the Corporation for operating and capital expenses. The Commission's budget is subject to review and approval from both the executive and legislative branches of the State.

The State has provided education loans through various programs since 1968. Prior to the creation of the Corporation, substantially all such loans were recorded in the Scholarship Revolving Loan Fund and Teacher Scholarship Loan Fund (Funds) of the State. In April 1988, by act of the Legislature, the assets, liabilities, and equities of the Funds were transferred to the Corporation effective December 30, 1987.

Loans are financed through the issuance of tax-exempt bonds or with recycled principal and interest repayments. The bonds outstanding are payable primarily from interest and principal repayments on the financed loans as specified in the underlying resolutions authorizing the sale of bonds.

(2) Summary of Significant Accounting Policies

(a) *Fund Accounting*

The financial activities of the Corporation, which are restricted by the Corporation's bond indentures and the requirements of the Legislature, are recorded in various funds as specified in such instruments or necessitated by appropriation requirements or sound fiscal management. The funds are combined for financial statement purposes and there are no significant interfund transactions. The Corporation's funds are considered to be enterprise funds for financial reporting purposes with revenues recognized when earned and expenses when incurred.

(b) *Standard Application*

As allowed by the Government Accounting Standards Board Statement No. 20 (GASB 20), *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Corporation has elected not to apply Statements and Interpretations issued by the Financial Accounting Standards Board after November 30, 1989.

(c) *Fiscal Year*

The Corporation's fiscal year begins July 1 and ends June 30, consistent with the State's fiscal year.

(d) ***Management Estimates***

In preparing the financial statements in accordance with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Actual amounts could differ from those estimates. The more significant accounting and reporting policies applied in the preparation of the accompanying financial statements are discussed below.

(e) ***Loans***

Loans represent education loans issued through the AlaskAdvantage® Loan Programs, which include Alaska Supplemental Loans, Teacher Education Loans (TEL), Family Education Loans (FEL), (collectively referred to as supplemental loans), and federally guaranteed Stafford, PLUS and Consolidated loans. The terms of the loans vary depending on the year of inception and loan type. Interest accrues at fixed and variable rates ranging from 2.77% to 9% and is generally determined by loan type and issue date. The Corporation offers borrower benefits, which reduce the interest costs for eligible borrowers. The borrower benefit offerings are approved by the Corporation Board of Directors annually and may vary from year-to-year.

A borrower of TEL can obtain up to 100% forgiveness of loan principal and interest if the borrower teaches in rural Alaska for periods specified by the program.

For certain supplemental loans awarded prior to July 1, 1987, borrowers can obtain forgiveness for up to 50% of loan principal and interest if the borrower resides in Alaska for specified periods upon successful completion of the program of study for which the loan was awarded.

(f) ***Allowance for Doubtful Loans***

The allowance for doubtful loans represents management's estimate, based on experience, of all loans that will ultimately be uncollectible. The Corporation charges off supplemental loans to the allowance upon death, bankruptcy as allowed by law, total disability of the borrower, or when a payment has not been received for five years on loans not in deferment. In fiscal year 2003, management changed the allowance estimate for older loan program years to better reflect the impact of ongoing loan servicing and collection improvements. To determine the change, management analyzed default data on matured loan pools and cohort default declines since calendar year 1997. These analyses were used to estimate reserve rates for loans outstanding as of June 30, 2003. Included in the older program years are the loans that were brought back for in-house servicing due to termination of the collection agency contracts in 1998, 2001 and 2003.

(g) ***Interest on Education Loans***

Interest on education loans is accrued when earned. For federally guaranteed subsidized loans, interest from the disbursement date of the loan until a date that is six months after the student withdraws from school (plus any authorized deferment periods) is billed to and paid by the U.S. Department of Education under the Federal Family Education Loan Program. The borrower pays interest subsequent to that date. For non-subsidized federally guaranteed loans and for all supplemental loans issued after June 30, 2002 interest from the disbursement date is paid by the borrower.

Certain supplemental loans are non-interest bearing while the borrower is completing eligible studies. All state supplemental loans issued prior to July 1, 1996 are non-interest bearing during approved periods of deferment and postponement. Loans issued prior to July 1, 1987 are also non-interest bearing during a one-year grace period following completion of studies and a six-month sub-grace period following an approved deferment. Non-interest bearing loans are approximately $32,557,565 at December 31, 2004.

Historical rates are used to determine the allowance for doubtful interest. The allowance for doubtful interest is approximately $22,000,000 and $23,000,000 as of December 31, 2004 and 2003, respectively. The provision for doubtful interest is a reduction of interest income and was approximately $1,180,420 and $400,000 for the six months ended December 31, 2004 and 2003, respectively.

(h) ***Deferred Credit***

Borrowers who received supplemental loans after June 30, 1994 were charged an origination fee of 1%, 3% or 5%, generally determined by loan issue date. Its purpose is to offset loan losses due to death, disability, bankruptcy or default of borrowers charged the origination fee. The origination fee is recognized as revenue using the straight-line method equal to the loan repayment period and assumes repayment begins the year following origination. The allowance for doubtful loans has been reduced by the unamortized deferred credit.

(i) ***Allowance for Forgiveness***

The allowance for forgiveness represents management's estimate, based on experience of the loan forgiveness that will ultimately be applied for and granted.

(j) ***Bond Issuance Costs***

Bond issuance costs include underwriters' fees and other costs incurred in connection with the issuance of bonds and are amortized using the straight-line method.

(k) ***Bond Discounts/Premiums and Deferred Amounts on Refundings***

Bond discounts, premiums and deferred amounts on refundings are amortized using the straight-line method.

(l) ***Income Taxes***

The Corporation, as a government instrumentality, is exempt from federal and state income taxes.

(m) ***Investments***

The Corporation carries all investments at fair value.

(n) ***Unrestricted Net Assets***

Unrestricted net assets represent assets of the Corporation not pledged as collateral for specific bond indentures. GASB 34 requires assets restricted by statute to be reported as unrestricted. Assets restricted by statute are approximately $22,100,000 and $24,000,000 at December 31, 2004 and 2003, respectively.

(3) **Cash and Cash Equivalents**

The statement of cash flows is presented to reflect the activity resulting in a change in cash and cash equivalents. For purposes of the statement of cash flows, the Corporation considers its equity in the State's Treasury Pools to be cash and cash equivalents. The Corporation's equity consists of Short-term and Intermediate-term Fixed Income Pools, and repurchase agreements held by the State as the custodian for the Corporation.

Government Accounting Standards Board Statement No. 3 (GASB 3) and GASB Technical Bulletin 87-1 require deposits and investments to be categorized to indicate the level of risk assumed by the Corporation at the end of the period. Category 1 consists of investments that are insured or registered and held by the Corporation or its custodian in the Corporation's name. Category 2 consists of uninsured and unregistered investments held by the Corporation or its custodian in the Corporation's name. Category 3 includes uninsured and unregistered investments held by the Corporation or its custodian not in the Corporation's name.

A summary of cash and cash equivalents at December 31 follows:

	Risk Category		2004	2003
Fixed Income pools	—	$	3,387,862	6,691,575
Deposits	1		1,462,530	3,806,286
Repurchase agreements	1		35,654,929	15,277,799
		$	40,505,321	25,775,660

Equity in the Fixed Income pools cannot be categorized because it represents the Corporation's share of ownership in the pool rather than ownership of specific securities.

Cash and cash equivalents in the amount of $31,940,111 and $19,572,851 for the six months ended December 31, 2004 and 2003, respectively, are subject to certain restrictions as specified in the bond indentures.

(Continued)

(4) Investments

Allowable restricted investments are specified in the bond indenture, as are certain restrictions. Substantially all investments are held, in trust, for the benefit of the Corporation and the bondholders.

The Corporation's investments at December 31 are shown below:

	Risk Category		2004	2003
Categorized investments:				
U.S. government and federal agency securities	1	$	197,560,325	169,767,669
Repurchase agreements	1		44,723,500	35,404,500
Forward delivery agreements	1		5,173,986	18,460,527
Corporate Bonds	1		5,457,385	—
Bank investment contracts	3		—	5,000,000
			252,915,196	228,632,696
Non-categorized investments:				
Money market pool — Government securities	—		62,328,254	40,452,290
Total investments		$	315,243,450	269,084,986

Pooled investments cannot be categorized because they represent the Corporation's share of ownership in the pool rather than ownership of specific securities.

The carrying value of investments at December 31, 2004, by contractual maturity, are shown below:

Due in one year or less	$	155,936,221
Due within one to five years		107,629,567
Due in five years or more		51,677,662
	$	315,243,450

Investments include amounts specifically designated for financing education loans. At December 31, 2004 and 2003 the investments available for financing education loans total $58,299,603 and $95,408,907 respectively. The remaining investments held by the Trustee are restricted for debt service, capital reserve and rebate requirements.

(5) Restricted Loans Receivable

A summary of restricted loans receivable, all of which are installment loans to individuals, at December 31 follows:

		2004	2003
Alaska Supplemental Loans	$	540,996,363	540,932,472
Teacher Education Loans		9,100,619	9,152,809
Family Education Loans		9,060,809	9,775,849
Federal Family Education Loans		37,211,349	16,868,761
	$	596,369,140	576,729,891

The loan portfolio summarized by loan status at December 31 follows:

		2004	2003
Enrollment	$	125,466,928	110,889,593
Grace		12,706,204	11,308,342
Repayment		392,283,042	389,678,017
Deferment		65,912,966	64,853,939
	$	596,369,140	576,729,891

Loans awarded and not disbursed at December 31, 2004 and 2003 total $21,402,412 and $21,539,100 respectively.

Included in loans receivable are $6,872,656 and $5,212,710 of loan warrants issued but not yet redeemed by the borrowers at December 31, 2004 and 2003, respectively. Redemption is contingent upon the borrowers meeting certain eligibility requirements.

Restricted loans receivables are pledged to the Corporation's outstanding bonds.

(6) Allowance for Doubtful Loans

A summary of the activity in the allowance for doubtful loans at December 31 follows:

		2004	2003
Balance at beginning of period	$	99,333,011	96,229,397
Provision for loan losses		3,305,358	1,826,135
Net loans charged off		(833,390)	(155,124)
Balance at end of period	$	101,804,979	97,900,408

(7) Allowance for Forgiveness

As described in note 2, the Corporation disburses loans of which principal and interest become eligible for forgiveness under certain conditions.

A summary of the activity in the allowance for forgiveness at December 31 follows:

		2004	2003
Balance at beginning of period	$	2,396,056	2,292,031
Provision for forgiveness		243,803	120,686
Forgiveness granted		(278,302)	(155,035)
Balance at end of period	$	2,361,557	2,257,682

(Continued)

(8) Bonds Payable

(a) Bonds payable at June 30 consist of the following:

	Original Amount	Amount outstanding 2004	Amount outstanding 2003
Outstanding under the 1988 Master Indenture:			
1994 Series A Student Loan Revenue Bonds serial bonds, fixed rates ranging	50,000,000	—	19,680,000
1995 Series A Student Loan Revenue Bonds serial bonds, fixed rates ranging from 5.375% to 5.75%, due 2006 to 2009	55,000,000	21,920,000	29,270,000
1996 Series A Student Loan Revenue Bonds serial bonds, fixed rates ranging from 5.85% to 6.35%, due 2006 to 2013	38,000,000	28,500,000	31,000,000
1997 Series A Student Loan Revenue Bonds serial bonds, fixed rates ranging from 5.25% to 5.75%, due 2006 to 2015	75,000,000	69,000,000	73,000,000
1998 Series A Student Loan Revenue Bonds serial bonds, fixed rates ranging from 4.65% to 5.3%, due 2006 to 2016	88,570,000	50,000,000	60,000,000
1999 Series A Student Loan Revenue Bonds serial bonds, fixed rates ranging from 4.7% to 5.45%, due 2006 to 2017	40,000,000	34,750,000	36,750,000
2000 Series A Student Loan Revenue Bonds serial bonds, fixed rates ranging from 5.35% to 6.05%, due 2006 to 2018	32,140,000	31,645,000	32,140,000
term bonds, 6.0%, due July 1, 2016	7,860,000	7,860,000	7,860,000
2001 Series A Student Loan Revenue Bonds serial bonds, fixed rates ranging from 4.1% to 4.65%, due 2006 to 2011	33,345,000	24,275,000	33,345,000
	$ 463,315,000	267,950,000	323,045,000
Less bond discounts		(7,406)	(14,812)
Sub-total 1988 Master Indenture		$ 267,942,594	323,030,188

(Continued)

	Original Amount	Amount outstanding 2004	Amount outstanding 2003
Outstanding under the 2002 Master Indenture:			
2002 Series A and B Education Loan Revenue Bonds			
auction variable rate bonds, due 2011 to 2037	$ 62,500,000	36,100,000	62,500,000
2003 Series A-1 and A-2 Education Loan Revenue Bonds			
auction variable rate bonds, due 2011 to 2038	47,000,000	47,000,000	47,000,000
2004 Series A-1, A-2, A-3 Education Loan Revenue Bonds			
auction variable rate bonds due 2044	93,100,000	93,100,000	93,100,000
serial bonds, fixed rate ranging			
from 5.0% to 5.25%, due 2011 to 2017	22,015,000	22,015,000	22,015,000
	$ 224,615,000	198,215,000	224,615,000
Plus bond premium		912,710	934,957
Sub-total 2002 Master Indenture		$ 199,127,710	225,549,957

	Original Amount	Amount outstanding 2004	Amount outstanding 2003
Outstanding under the 2004 Indenture:			
2004 Series A Capital Project Revenue Bonds			
serial bonds, fixed rates ranging			
from 2.0% to 4.0%, due 2006 to 2017	$ 69,910,000	66,775,000	69,910,000
term bonds, 4.0%, due July 1, 2018	5,230,000	5,230,000	5,230,000
	$ 75,140,000	72,005,000	75,140,000
Plus bond premium		2,251,605	2,318,476
Sub-Total 2004 Indenture		$ 74,256,605	77,458,476
Bonds Payable		$ 538,170,000	622,800,000
Bond premium		3,156,909	3,238,621
		541,326,909	626,038,621

(Continued)

(b) The minimum payments and sinking fund installments related to each indenture for the five years subsequent to December 31, 2004 and thereafter are as follows:

1988 Master Indenture

Period ending December 31		Principal	Interest	Total
2005	$	25,500,000	14,432,930	39,932,930
2006		23,125,000	13,143,328	36,268,328
2007		25,800,000	11,958,603	37,758,603
2008		27,250,000	10,618,313	37,868,313
2009		22,535,000	9,173,020	31,708,020
2010-2014		109,895,000	28,082,918	137,977,918
2015-2019		33,845,000	2,918,953	36,763,953
	$	267,950,000	90,328,065	358,278,065

2002 Master Indenture

Period ending December 31		Principal	Interest	Total
2005	$	—	3,854,900	3,854,900
2006		—	3,854,900	3,854,900
2007		—	3,854,900	3,854,900
2008		—	3,854,900	3,854,900
2009		—	3,854,900	3,854,900
2010-2014		48,670,000	16,144,274	64,814,274
2015-2019		5,645,000	11,964,342	17,609,342
2020-2044		143,900,000	53,346,177	197,246,177
	$	198,215,000	100,729,293	298,944,293

(Continued)

2004 Indenture Bonds

Period ending December 31		Principal	Interest	Total
2005	$	5,695,000	2,377,800	8,072,800
2006		5,850,000	2,263,150	8,113,150
2007		6,000,000	2,145,400	8,145,400
2008		6,160,000	2,024,600	8,184,600
2009		6,360,000	1,869,100	8,229,100
2010-2014		31,585,000	5,285,500	36,870,500
2015-2019		10,355,000	929,700	11,284,700
	$	72,005,000	16,895,250	88,900,250

Total for all Bonds

Period ending December 31		Principal	Interest	Total
2005	$	31,195,000	20,665,630	51,860,630
2006		28,975,000	19,261,378	48,236,378
2007		31,800,000	17,958,903	49,758,903
2008		33,410,000	16,497,813	49,907,813
2009		28,895,000	14,897,020	43,792,020
2010-2014		190,150,000	49,512,692	239,662,692
2015-2019		49,845,000	15,812,994	65,657,994
2020-2044		143,900,000	53,346,177	197,246,177
	$	538,170,000	207,952,607	746,122,607

(c) The 1988 and 2002 Master Indenture Bonds are private activity bonds. The 2004 Indenture Bonds are not private activity bonds. All of the bonds pay interest semiannually. The bonds are secured by education loans and other assets of the Corporation and are not obligations of the State.

All of the bonds are subject to certain early redemption features, both mandatory and at the option of the Corporation. In addition, the bond indentures contain covenants relative to restrictions on additional indebtedness.

All of the bonds outstanding under the 1988 Master Indenture are insured by Ambac Assurance Corporation. The 2004 Capital Project Revenue Bonds outstanding under the 2004 Indenture are insured by MBIA Insurance Corporation.

(d) On June 5, 2003, the Corporation issued $47,000,000 in education loan revenue bonds, of which $15,885,000 was for the purpose of refunding the outstanding 1993 Series A bonds at par. The refunding occurred on July 1, 2004.

The refunding portion of the Series 2003 A-2 bonds was issued as auction variable rate certificates in which the interest is reset every 35 days and the principal payment due June 1, 2038. The initial interest rate on the Series 2003 A-2 bonds was 1.12%. The refunded 1993 Series A bonds interest rates were fixed rates ranging from 5.5% to 5.625% and were due in level debt service payments, with the final payment due July 1, 2006. The refunding resulted in aggregate debt service payments over the next seven years in a total amount of approximately $400,000 less than the debt service payments which would have been due on the refunded bonds. Based on the Series 2003 A-2 bonds' initial interest rate of 1.12%, there will be an estimated economic gain of $900,000. Economic gain is calculated as the net difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at the effective interest rate and adjusted for additional cash paid.

(e) On May 19, 2004, the Corporation issued $115,115,000 in education loan revenue bonds, of which $13,055,000 was for the purpose of refunding the outstanding 1994 Series A bonds and $26,400,000 was for the purpose of refunding a portion of the Series 2002 A bonds, both at par.

The 1994 Series A refunding occurred on July 1, 2004. The refunding portion of the Series 2004 A-2 bonds was issued as auction variable rate certificates in which the interest is reset every 35 days and the principal payment due June 1, 2044. The initial interest rate on the Series 2004 A-2 bonds was 1.18%. The refunded 1994 Series A bond's interest rates were fixed rates ranging from 5.875% to 6% and were due in level debt service payments, with the final payment due July 1, 2007. The refunding resulted in aggregate debt service payments over the next seven years in a total amount of approximately $700,000 less than the debt service payments which would have been due on the refunded bonds. Based on the Series 2004 A-2 bonds' initial interest rate of 1.18%, there will be an estimated economic gain of $740,000.

(f) The Series 2002 A refunding occurred on August 16, 2004. The refunding portion of the Series 2004 A-1 was issued as auction variable rate certificates in which the interest is reset every 35 days and the principal payment due June 1, 2044. The initial interest rate on the Series 2004 A-1 bonds was 1.20%. The refunded Series 2002 A bonds were issued as auction variable rate certificates in which the interest rate reset every 35 days and the principal payments were due June 1, 2009 and 2010. The refunding was effected to extend the maturity dates of these bonds to June 1, 2044. There is no expected economic gain or change in debt service payments over the next six years.

(9) Arbitrage Rebate Payable

In connection with the Corporation's tax-exempt bond issues, the Corporation is subject to rebatable arbitrage when bond proceeds are invested in investments and education loans. Interest income from investments and education loans is limited by the U.S. Treasury regulations. The amount accrued for arbitrage rebate liability at June 30, 2004 and 2003 represents the amount of arbitrage rebate due to the federal government for excess earnings on the bond proceeds.

(10) Student Loan Interest and Special Allowance on Federally Guaranteed Loans

The U.S. Department of Education makes quarterly interest subsidy payments on behalf of qualified borrowers until the borrower is required under provisions of the Higher Education Act to begin repayment. Repayment on Stafford Education loans normally begins within six months after borrowers complete their course of study, leave school, or cease to carry at least one-half the normal full-time academic load as determined by the educational institution. Repayment of PLUS loans normally begins within sixty days from the date of loan disbursement unless a deferment of payments has been granted. In these cases, full repayment of principal and interest would resume at the expiration of the deferment. Interest accrues during this deferment period.

The U.S. Department of Education provides a special allowance payment to lenders participating in the Stafford, PLUS, and Consolidation loan programs. Special allowance is paid based on a rate that is established quarterly. For loans first disbursed after June 30, 1999 and financed with obligations issued after October 1, 1993, the rate is based on the average rate established in the auction of the three-month Financial Commercial Paper, plus a predetermined factor, less the interest rate on the loan. Loans made or purchased with funds obtained through the issuance of tax-exempt obligations issued before October 1, 1993 are eligible for one-half of the special allowance rate, subject to a minimum return of 9.5%. Loans originated or purchased with funds obtained through the issuance of tax-exempt obligations originally issued after October 1, 1993 are eligible for full special allowance and are not subject to a minimum return.

(11) Retirement Plan

Effective July 1, 1997, the Commission adopted the provisions of Government Accounting Standards Board Statement No. 27 (GASB 27), *Accounting for Pensions by State and Local Government Employers*. There was no impact on the financial statements as a result of GASB 27.

(a) *Plan Description*

The Commission and its employees participate in the State of Alaska Public Employees' Retirement System (PERS), as a defined benefit, agent multiple-employer public employee retirement system which was established and is administered by the State to provide pension, post-employment healthcare, and death and disability benefits to eligible employees. All full-time employees are required to participate in PERS. Benefit and contribution provisions are established by State law and may be amended only by the Legislature.

Employees hired prior to July 1, 1986, with five or more years of credited service, are entitled to annual pension benefits beginning at normal retirement age fifty-five or early retirement age fifty. For employees hired after June 30, 1986, the normal retirement age is sixty and the early retirement age is fifty-five. The normal annual pension benefit for the first ten years of service is equal to 2% per year of the member's highest three-year average yearly compensation, 2.25% per year for the second ten years of service, and 2.5% per year thereafter. All service earned prior to

July 1, 1986 is calculated using the 2% multiplier. Employees with thirty or more years of credited service may retire at any age and receive a normal benefit. Major medical benefits are provided without cost to all retirees first hired before July 1, 1986. Members with five or more years of credited service first hired after June 30, 1986, but before July 1, 1996, may elect major medical benefits. Members first hired after June 30, 1996 must have at least ten years of credited service to be eligible to elect major medical benefits.

Each fiscal year, PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska 99211-0203 or by calling (907) 465-4460.

(b) ***Fund Policy and Annual Pension Cost***

Employees are required, by State statute, to contribute 6.75% of their gross wage to the plan. The funding policy for PERS provides for periodic employer contributions at actuarially determined rates that, expressed as a percentage of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Covered payroll for the period ended December 31, 2004, was approximately $2,188,546 constituting substantially all of the Commission's payroll. The Commission's annual pension cost for the current year and the related information is as follows:

Contribution rates:		
Employee		6.75%
Employer		12.65%
Annual pension cost to date	$	276,900
Contributions made	$	276,900
Actuarial valuation date		June 30, 2003
Actuarial cost method		Projected unit credit
Amortization method		Level percentage of pay
Amortization period		25-year Fixed
Asset valuation method		5-year smoothed market
Actuarial assumptions:		
Inflation rate		3.50% per year
Investment return		8.25% per year, compounded annually, net of expense.
Projected salary increase:		
Inflation		3.50%
Productivity and merit		2.00%
Health cost trend		12.00%

(Continued)

In the current year, the Commission determined, in accordance with provisions of GASB 27, that no pension liability (asset) existed to PERS and there was no previously reported liability (asset).

(12) Commitments and Contingencies

(a) *Operations*

The Commission included approximately $9,600,000 in its budget for fiscal year 2005 as reimbursement from the Corporation for administrative and capital expenses incurred on the Corporation's behalf. Amounts paid by the Corporation will be subject to revision based upon actual expenses incurred by the Commission.

(b) *Payment to the State of Alaska*

During fiscal year 2000 the Legislature passed a bill that allows the Corporation to pay the State a return of contributed capital or dividend annually based on net income. If the Corporation's Board of Directors elects to make such a payment, the amount may not be less than 10%, nor greater than 35%, of the Corporation's income before transfers when it equals or exceeds $2,000,000 for the Base Fiscal Year. The Base Fiscal Year is defined as the fiscal year ending two years before the end of the fiscal year in which the payment is made.

On September 13, 2004, the Corporation's Board of Directors approved a $3,100,000 Return of Capital payment to the State which will be paid during the fiscal year 2006.

During fiscal year 2004 the Legislature passed a bill allowing the Corporation an additional means to pay the State a return of contributed capital. The Corporation is now permitted to use its bonding authority to return capital invested in the loan program back to the State. By year-end, a Capital Project account was established and funded with $75,000,000 for use in financial various State capital projects.

(c) *State Permanent Fund Dividend Seizure*

The Alaska Permanent Fund (Permanent Fund) is a fund held and managed by the State and was established in the Alaska State Constitution in 1976. The State deposits a percentage of oil and gas royalties into the Permanent Fund. By statute, the State pays a portion of the earnings of the Permanent Fund (PFD) annually to individuals who apply and meet certain residency requirements, provided that sufficient funds are available for payment. The annual PFD paid to each eligible resident for the years 2004 and 2003 was $920 and $1,108 respectively. There can be no assurance that payments will continue. PFD payments could be eliminated or reduced by an amendment to the Alaska Statutes. The Commission may seize a borrower's Permanent Fund Dividend (PFD) payment, if any, to satisfy the balance of a defaulted loan pursuant to Alaska Statutes 14.43.145 and 43.23.067. To do so, the Commission issues certified claim letters to all borrowers of defaulted loans applying for PFDs, notifying them of the Commission's claim. The Commission has seizure priority over all other executors except State child support enforcement and any court ordered restitution. There is no assurance that any particular borrower will apply or qualify for a PFD payment.

PFD seizures collected by the Commission were approximately $3,400,000 and $4,900,000 for the years ended December 31, 2004 and 2003, respectively.

The Legislature and the Governor have, from time to time, considered various alternative measures including reducing or restricting the size of the PFD. The Corporation cannot predict whether any such measure will be enacted or the impact any such measure would have on loan collections through PFD seizures.

(d) ***General***

The education loan program has traditionally been the subject of legislative action by the State. The laws governing the program have been amended from time to time and will continue to be the subject of legislative proposals calling for further amendment. The effect, if any, on the program cannot be determined.

The Corporation is subject to interest rate risk relating to its variable rate bonds and the loans funded with bond proceeds. The bonds are subject to an interest rate cap of 14% while the loans are subject to an interest rate cap of 8.25% to 9.5% depending on the loan type. The Corporation has various strategies available to manage the risk that the bond rate may rise above the loan rate cap.